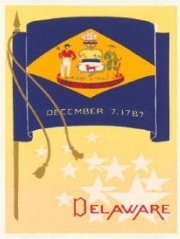

Delaware's Personal Income Tax

Presented to the Advisory Council on Revenues
January 30, 2015

Portfolio Data Requests



Real Revenue Growth and Stability: Recent History

Performance of Major Revenue Categories: FY 1997-2013

(General Fund Revenues Adjusted For Delaware Legislative Changes)

| Revenue Source* | Share of FY 2013 Revenues | STABILITY | | | | REAL GROWTH HISTORY | | | | GROWTH FORECAST | | | |
|---------------------------------|---------------------------------|---|------|----------------------------------|------|---|------|---------------------------------------|------|---|------|--------------------------|------|
| | | ranked from most stable (1) to least stable (8) | | | | Ranked from highest growth/elasticity (1) to lowest (8) | | | | | | | |
| | | Standard Deviation (1) | | Coefficient of Variations (2) | | Sharpe Ratio (3) | | Estimate of Real Annual Growth (4) | | Elasticity v. Delaware Personal Income (5) | | Elasticity Over Forecast | |
| | | Value | Rank | Value | Rank | Value | Rank | Value | Rank | Value | Rank | Value | Rank |
| Personal Income Tax | 31% | 182.5 | 8 | 21.28615 | 2 | 0.016619 | 3 | 1.45% | 4 | 0.84 | 3 | 1.08 | 2 |
| Corporate Franchise & LLC/LLP's | 16% | 98.9 | 6 | 13.78962 | 1 | -0.15849 | 7 | -0.64% | 6 | -0.83 | 6 | 0.59 | 5 |
| Corporate Income Tax | 5% | 25.0 | 2 | 33.69179 | 6 | 0.007569 | 4 | 1.48% | 3 | 0.67 | 4 | 1.16 | 1 |
| Bank Franchise Tax | 3% | 25.0 | 2 | 24.25522 | 3 | -0.08756 | 6 | -1.06% | 7 | -1.83 | 7 | 0.20 | 6 |
| Gross Receipts Tax | 6% | 42.8 | 4 | 26.5954 | 5 | 0.076045 | 2 | 2.07% | 2 | 1.74 | 2 | 1.01 | 3 |
| Abandoned Property Tax | 15% | 150.7 | 7 | 51.09333 | 8 | 0.238381 | 1 | 10.02% | 1 | 7.27 | 1 | -0.17 | 7 |
| Realty Transfer Tax | 1% | 22.6 | 1 | 42.23646 | 7 | -0.04492 | 5 | -0.53% | 5 | 0.33 | 5 | 0.71 | 4 |
| Cigarette & Tobacco Product Tax | 3% | 47.6 | 5 | 25.99496 | 4 | -0.20065 | 8 | -4.89% | 8 | -2.97 | 8 | -0.69 | 8 |

Weighted GF Elasticity ==>

1.23

Weighted GF Elasticity (no escheat) ==>

0.12

Forecast Weighted GF Elasticity ==>

0.51

Forecast Weighted GF Elasticity (noescheat) ==>

0.54

* Lottery Revenues are not included.

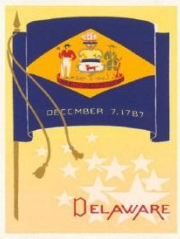
(1) Standard Deviation revenues in millions adjusted for Delaware legislative changes.

(2) Coefficient of Variation is defined as the (standard deviation/mean).

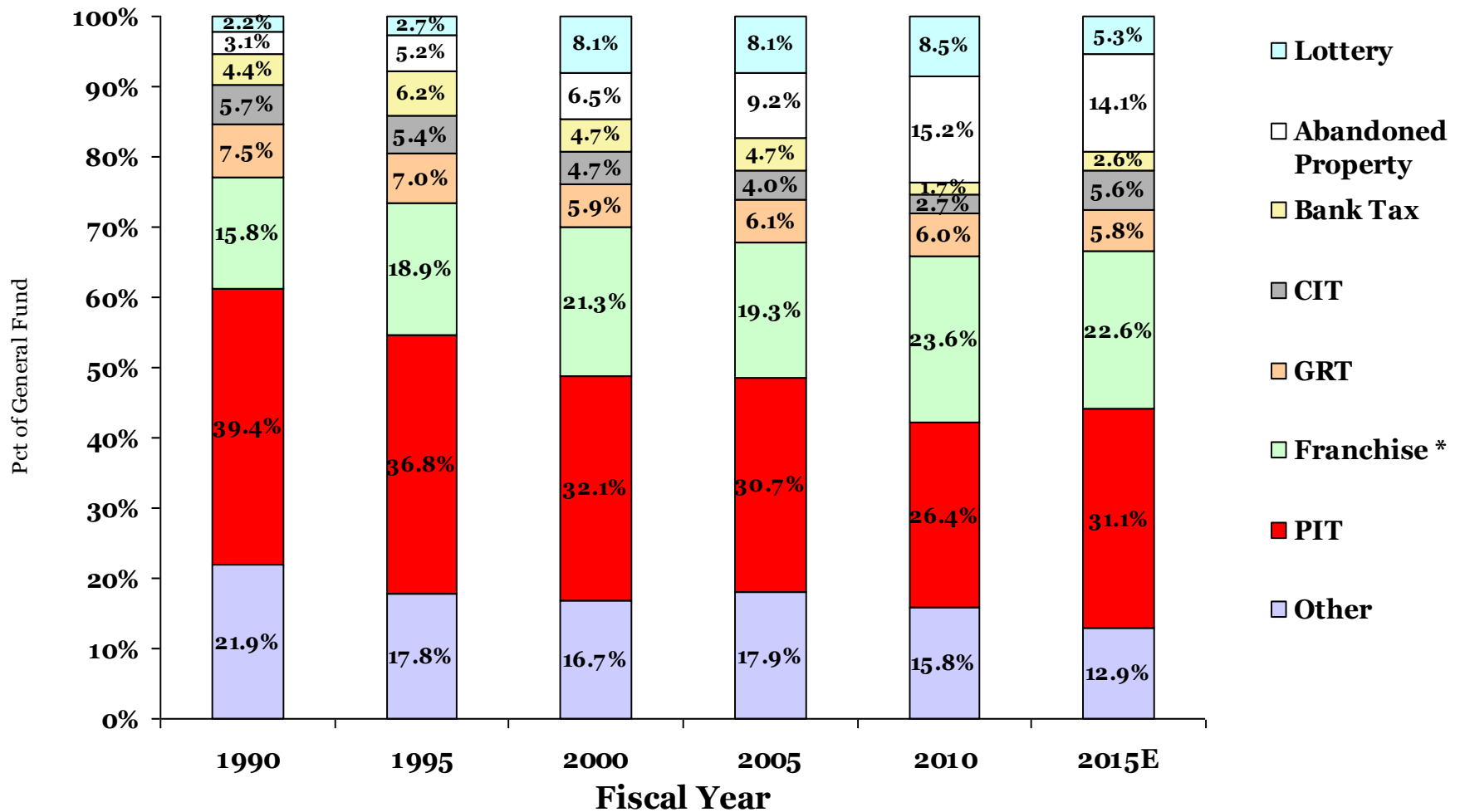
(3) Sharpe Ratio using Personal Income growth as our proxy for risk free growth

(4) Natural log of revenues in millions adjusted for Delaware Legislative changes and deflated with State and Local GDP Price Deflator.

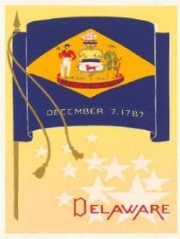
(5) Natural log of revenues in millions adjusted for Delaware Legislative changes and deflated with State and Local GDP Price Deflator vs. natural log of Delaware Personal Income.



Changing Revenue Composition

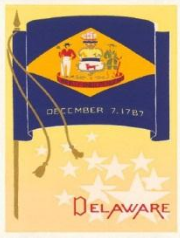


* 2000-2015E Franchise figures include LP/LLC collections.



Estate Tax Migration Research

- Cross-sectional and Time-series analysis is flawed
 - Data limitations
 - “Same-sign” problems
 - Ex: estate tax has negative effect on out and in migration
 - State-level controls change results drastically
- More robust panel studies offer conflicting results
 - “elderly state...EIG taxes have both varied a great deal...while elderly migration patterns remain largely the same” over the past 40 years. (Conway and Rork 2012)
 - 1% increase in state’s effective estate taxes leads to a 1.4 to 2.7% decline in federal estate tax filings. (Slemrod and Bakija 2004)

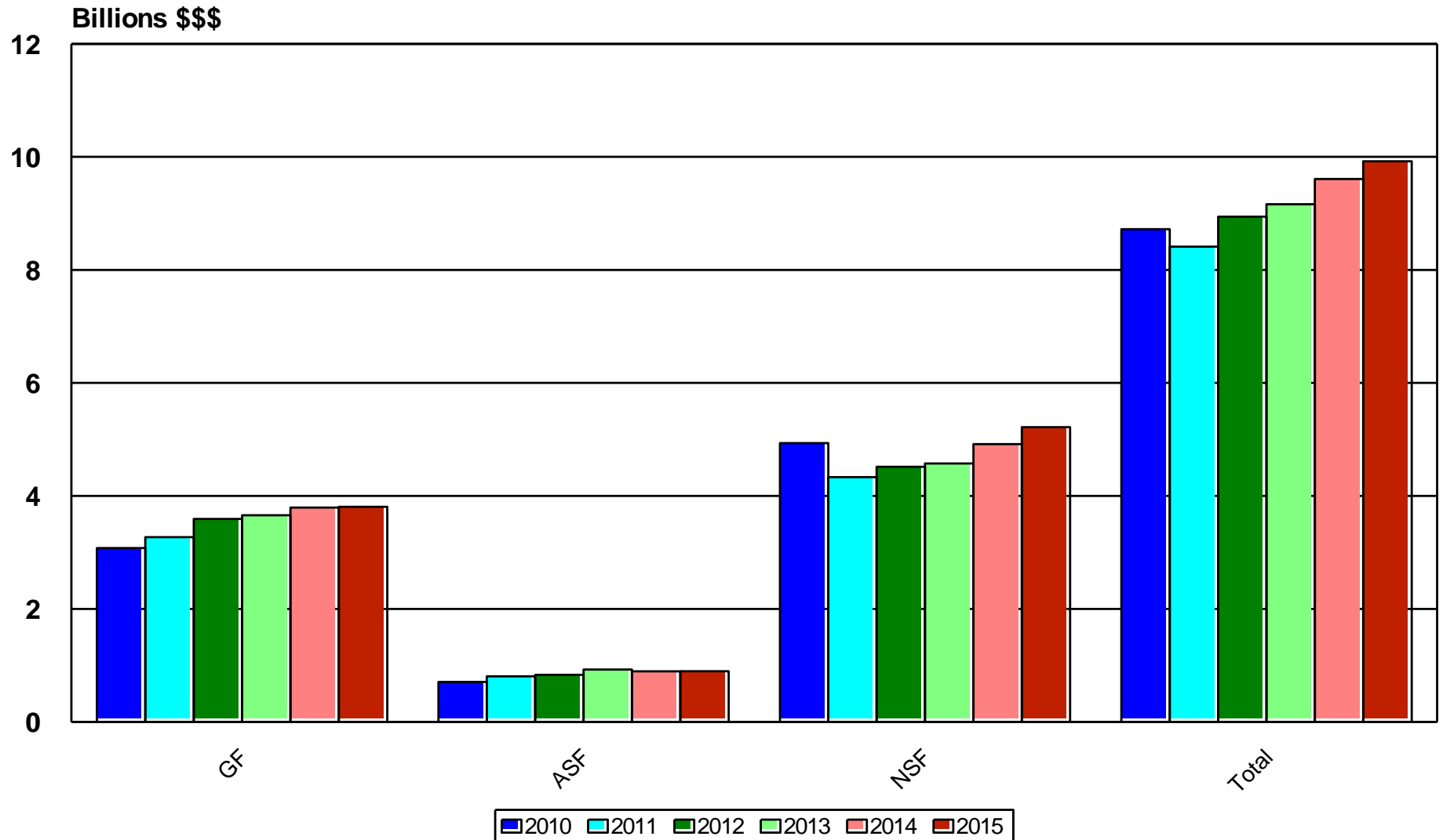


Delaware Estate and Income Tax Data

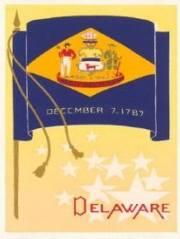
- DE estate tax filings consistent with federal rates
 - 2012: 0.4% of deaths led to a federal estate tax filing
 - DE national population share and DPC averages estimate a similar number of deaths for 2012.
 - 0.4% would yield 31 filing in 2012.
 - Actual filings: 30
- Small migration effects could be significant.
 - If 0.8% of top 1% income households migrate, income tax losses outstrips estate tax gains.
 - Average liability of the top 1 % is \$52,700
 - DE estate tax revenue is trending down toward \$2 million annually.
 - 38 household migrations would result in more than \$2 million reduction in PIT revenue.



Relative Size of the Special Funds

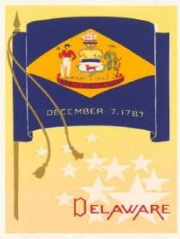


Personal Income Tax

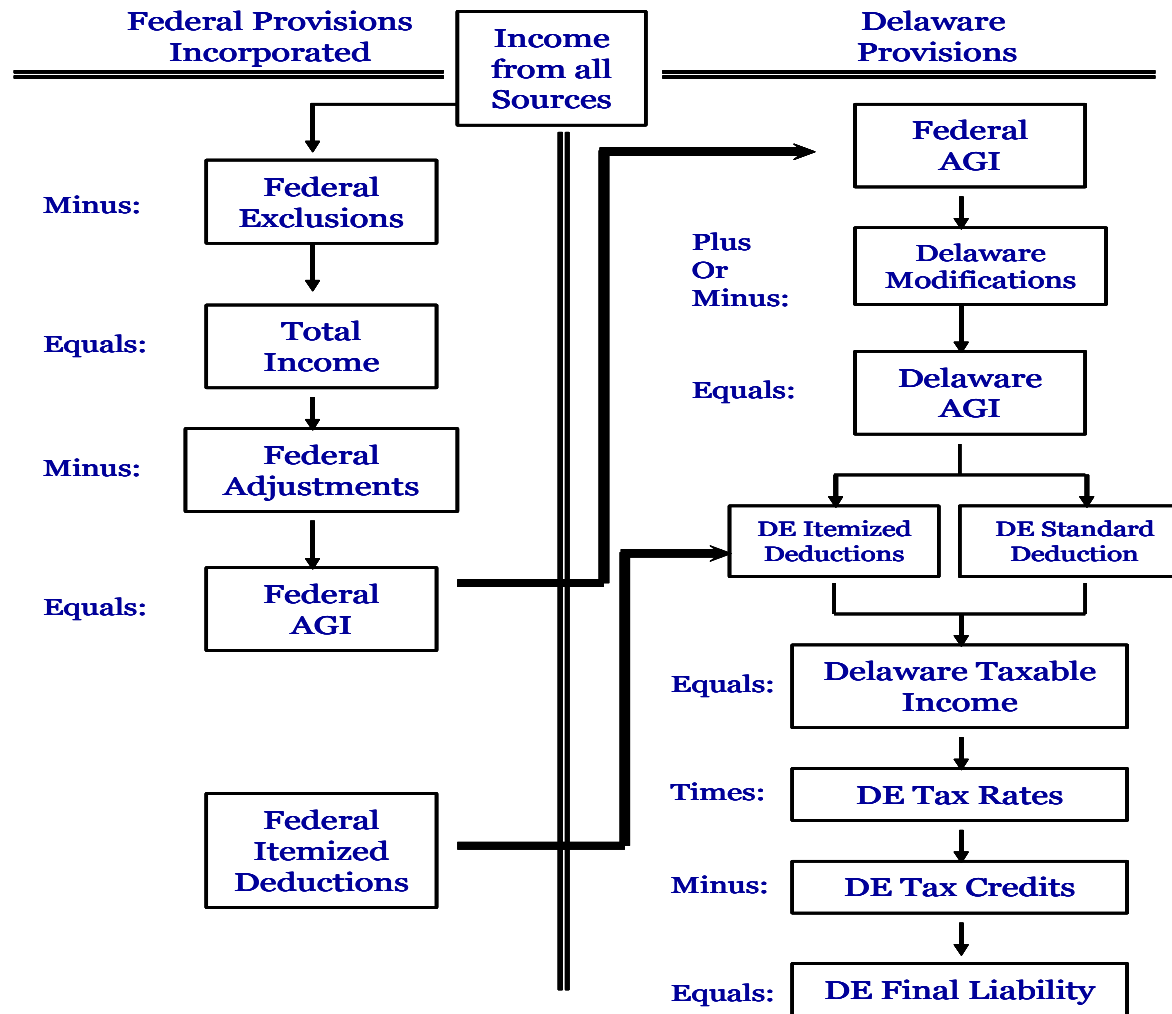


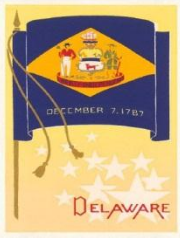
Background: Structure

- Delaware “piggybacks” on federal AGI and most federal itemized deductions.
- Delaware modifications to federal AGI include
 - Adding back interest income of non-DE state and local bonds.
 - Subtraction of interest on U.S. obligations and some pension income
- Delaware Taxable Income is AGI less the standard or itemized deduction.
 - Delaware excludes the deduction for taxes paid to state governments.



Internal Revenue Code Conformity



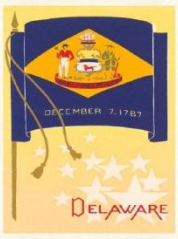


Structure

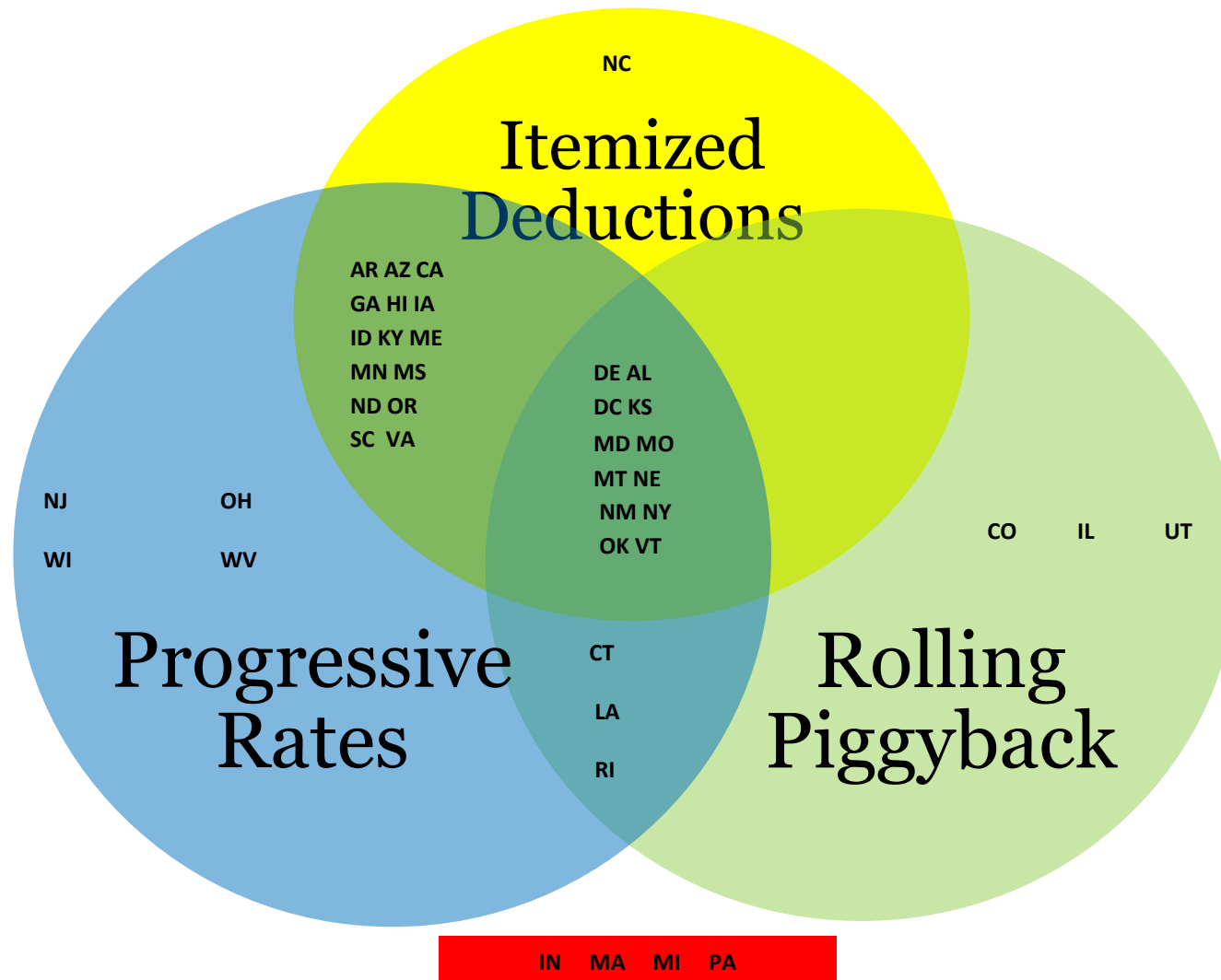
- Taxable income is run through the rate table below:

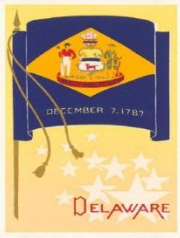
| IF TAXABLE INCOME IS GREATER THAN: | BUT LESS THAN: | TAX LIABILITY IS CALCULATED AS: | PLUS: | ON TAXABLE INCOME OVER: |
|---------------------------------------|----------------|------------------------------------|-------|----------------------------|
| \$0 | \$2,000 | \$0.00 | 0.00% | \$0 |
| \$2,000 | \$5,000 | \$0.00 | 2.20% | \$2,000 |
| \$5,000 | \$10,000 | \$66.00 | 3.90% | \$5,000 |
| \$10,000 | \$20,000 | \$261.50 | 4.80% | \$10,000 |
| \$20,000 | \$25,000 | \$741.50 | 5.20% | \$20,000 |
| \$25,000 | \$60,000 | \$1,001.00 | 5.55% | \$25,000 |
| \$60,000 | | \$2,943.50 | 6.60% | \$60,000 |

- Credits are then subtracted to produce final liability
 - \$110 credit per person
 - an extra personal credit per person over 60
 - Non-refundable credit: 50% of federal child care credit
 - Non-refundable credit: 20% of federal EITC



State Income Tax Legal Comparisons

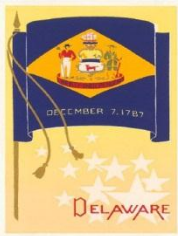




State Income Tax Rate Comparisons

| State | Top Rate | Rank | State | Top Rate | Rank |
|-------|----------|------|-------|----------|------|
| CA | 13.3% | 1 | KY | 6.0% | 21 |
| HI | 11.0% | 2 | LA | 6.0% | 21 |
| OR | 9.9% | 3 | MO | 6.0% | 21 |
| MN | 9.9% | 4 | RI | 6.0% | 25 |
| IA | 9.0% | 5 | NC | 5.8% | 26 |
| NJ | 9.0% | 6 | VA | 5.8% | 27 |
| DC | 9.0% | 7 | OH | 5.4% | 28 |
| VT | 9.0% | 7 | OK | 5.3% | 29 |
| NY | 8.8% | 9 | MA | 5.2% | 30 |
| MD | 8.6% | 10 | AL | 5.0% | 31 |
| ME | 8.0% | 11 | IL | 5.0% | 31 |
| WI | 7.7% | 12 | MS | 5.0% | 31 |
| ID | 7.4% | 13 | UT | 5.0% | 31 |
| AR | 7.0% | 14 | NM | 4.9% | 35 |
| SC | 7.0% | 14 | KS | 4.8% | 36 |
| MT | 6.9% | 16 | CO | 4.6% | 37 |
| NE | 6.8% | 17 | AZ | 4.5% | 38 |
| CT | 6.7% | 18 | MI | 4.3% | 39 |
| DE | 6.6% | 19 | IN | 3.4% | 40 |
| WV | 6.5% | 20 | ND | 3.2% | 41 |
| GA | 6.0% | 21 | PA | 3.1% | 42 |

- Median Top Marginal Tax Rate in United States is 6.0%.
- Median for states with similar format is 6.7%
- Median for states that allow itemized deductions is 6.9%



PIT Revenue per \$1,000 of Personal Income

| State | PIT per \$1,000 | Rank | State | PIT per \$1,000 | Rank |
|-------|-----------------|------|-------|-----------------|------|
| NY | \$45.58 | 1 | MT | \$23.23 | 23 |
| OR | \$38.15 | 2 | IA | \$23.15 | 24 |
| MD | \$36.24 | 3 | MO | \$23.14 | 25 |
| CT | \$34.40 | 4 | AR | \$22.98 | 26 |
| MA | \$32.13 | 5 | NJ | \$22.83 | 27 |
| MN | \$31.65 | 6 | RI | \$22.43 | 28 |
| DC | \$31.53 | 7 | ID | \$22.05 | 29 |
| CA | \$31.12 | 8 | NE | \$22.01 | 30 |
| DE | \$30.79 | 9 | GA | \$21.92 | 31 |
| KY | \$29.70 | 10 | VT | \$21.46 | 32 |
| OH | \$29.04 | 11 | CO | \$20.53 | 33 |
| NC | \$28.09 | 12 | MI | \$19.41 | 34 |
| WI | \$28.04 | 13 | SC | \$18.70 | 35 |
| ME | \$27.06 | 14 | AL | \$18.00 | 36 |
| WV | \$26.97 | 15 | OK | \$17.90 | 37 |
| IL | \$26.29 | 16 | NM | \$15.46 | 38 |
| VA | \$25.80 | 17 | MI | \$14.94 | 39 |
| PA | \$24.87 | 18 | LA | \$13.42 | 40 |
| HI | \$24.72 | 19 | AZ | \$13.03 | 41 |
| IN | \$24.47 | 20 | ND | \$11.27 | 42 |
| UT | \$24.38 | 21 | NH | \$1.26 | 43 |
| KS | \$23.31 | 22 | TN | \$0.73 | 44 |

- Median State and Local PIT revenue is \$23.87.
- Median for states with similar format and all itemization states is \$23.23.
- Median for states without sales taxes is \$27.01.



Personal Income Tax by Income Level (1997 & 2000)

| DE AGI Percentile | Tax Year 1997 | | | | Tax Year 2000 | | | |
|-------------------|------------------|---------------------------|---------------------|----------------------------|------------------|---------------------------|---------------------|----------------------------|
| | Number of Filers | Number of Resident Filers | Average DE AGI (\$) | Average Net Liability (\$) | Number of Filers | Number of Resident Filers | Average DE AGI (\$) | Average Net Liability (\$) |
| 0-10 | 43,555 | 40,071 | 3,133 | - | 44,411 | 41,302 | 3,575 | 1 |
| 10-20 | 43,555 | 40,506 | 7,825 | - | 44,412 | 41,303 | 9,210 | 28 |
| 20-30 | 43,555 | 40,506 | 12,595 | 175 | 44,411 | 40,858 | 14,798 | 135 |
| 30-40 | 43,555 | 40,071 | 17,361 | 414 | 44,411 | 40,858 | 20,378 | 327 |
| 40-50 | 43,555 | 39,635 | 22,327 | 655 | 44,411 | 40,414 | 26,029 | 552 |
| 50-60 | 43,555 | 39,200 | 27,717 | 927 | 44,412 | 39,527 | 32,129 | 818 |
| 60-70 | 43,555 | 38,328 | 34,122 | 1,248 | 44,412 | 38,638 | 39,368 | 1,133 |
| 70-80 | 43,555 | 37,457 | 42,027 | 1,652 | 44,412 | 38,194 | 48,684 | 1,527 |
| 80-90 | 43,555 | 36,586 | 54,676 | 2,301 | 44,412 | 36,862 | 64,037 | 2,157 |
| 90-95 | 21,778 | 17,422 | 75,964 | 3,464 | 22,206 | 17,543 | 90,536 | 3,380 |
| 95-99 | 17,422 | 13,241 | 124,593 | 6,401 | 17,764 | 13,145 | 151,122 | 6,554 |
| 99-100 | 4,356 | 3,267 | 562,767 | 34,026 | 4,442 | 3,287 | 713,725 | 36,018 |
| | 435,551 | 386,290 | 82,092 | 5,126 | 444,116 | 391,932 | 101,133 | 4,386 |

| | | |
|---------------------------------|---------|---------|
| Employed | 378,117 | 402,777 |
| Unemployed | 15,376 | 13,726 |
| Labor Force | 393,493 | 416,503 |
| Civilian Population (*) | 573,467 | 597,082 |
| Number of households | - | 298,736 |
| Persons per household | - | 2.54 |
| Median household income (\$) | 43,033 | 50,365 |
| Average annual pay (\$) | 32,215 | 36,696 |
| Per capita personal income (\$) | 27,077 | 32,097 |

Sources: DOF, BLS, BEA and Census Bureau

(*) The civilian noninstitutional population consists of people aged 16 and older who are not institutionalized and not on active duty in the Armed Forces



Personal Income Tax by Income Level (2003 & 2006)

| DE AGI Percentile | Tax Year 2003 | | | | Tax Year 2006 | | | |
|----------------------|---------------------|---------------------------------|------------------------|----------------------------------|---------------------|---------------------------------|------------------------|----------------------------------|
| | Number of Filers | Number of Resident Filers | Average DE AGI (\$) | Average Net Liability (\$) | Number of Filers | Number of Resident Filers | Average DE AGI (\$) | Average Net Liability (\$) |
| 0-10 | 45,299 | 41,675 | 3,628 | 1 | 48,705 | 44,809 | 3,908 | 2 |
| 10-20 | 45,299 | 42,128 | 9,582 | 30 | 48,706 | 45,297 | 10,411 | 40 |
| 20-30 | 45,299 | 42,128 | 15,526 | 154 | 48,706 | 45,297 | 16,936 | 173 |
| 30-40 | 45,299 | 41,675 | 21,476 | 355 | 48,706 | 45,297 | 23,391 | 370 |
| 40-50 | 45,299 | 41,222 | 27,435 | 593 | 48,706 | 44,810 | 29,953 | 654 |
| 50-60 | 45,299 | 40,769 | 33,870 | 874 | 48,706 | 43,835 | 37,223 | 992 |
| 60-70 | 45,299 | 39,863 | 41,444 | 1,199 | 48,706 | 42,861 | 45,870 | 1,356 |
| 70-80 | 45,299 | 38,957 | 51,552 | 1,624 | 48,706 | 41,887 | 57,443 | 1,834 |
| 80-90 | 45,299 | 37,145 | 67,832 | 2,291 | 48,706 | 39,939 | 76,558 | 2,603 |
| 90-95 | 22,650 | 17,214 | 94,945 | 3,537 | 24,353 | 18,265 | 108,482 | 4,062 |
| 95-99 | 18,120 | 12,503 | 155,952 | 6,677 | 19,482 | 13,248 | 189,046 | 8,206 |
| 99-100 | 4,531 | 3,126 | 703,086 | 35,518 | 4,871 | 3,312 | 1,035,329 | 51,694 |
| | 452,992 | 398,406 | 102,194 | 4,405 | 487,059 | 428,855 | 136,213 | 5,999 |

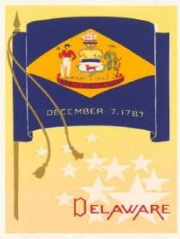
| | | |
|---------------------------------|---------|---------|
| Employed | 403,504 | 424,618 |
| Unemployed | 17,557 | 15,507 |
| Labor Force | 421,061 | 440,125 |
| Civilian Population | 622,359 | 657,537 |
| Number of households | - | 320,110 |
| Persons per household | - | 2.59 |
| Median household income (\$) | 49,019 | 52,438 |
| Average annual pay (\$) | 40,954 | 46,285 |
| Per capita personal income (\$) | 35,451 | 40,276 |



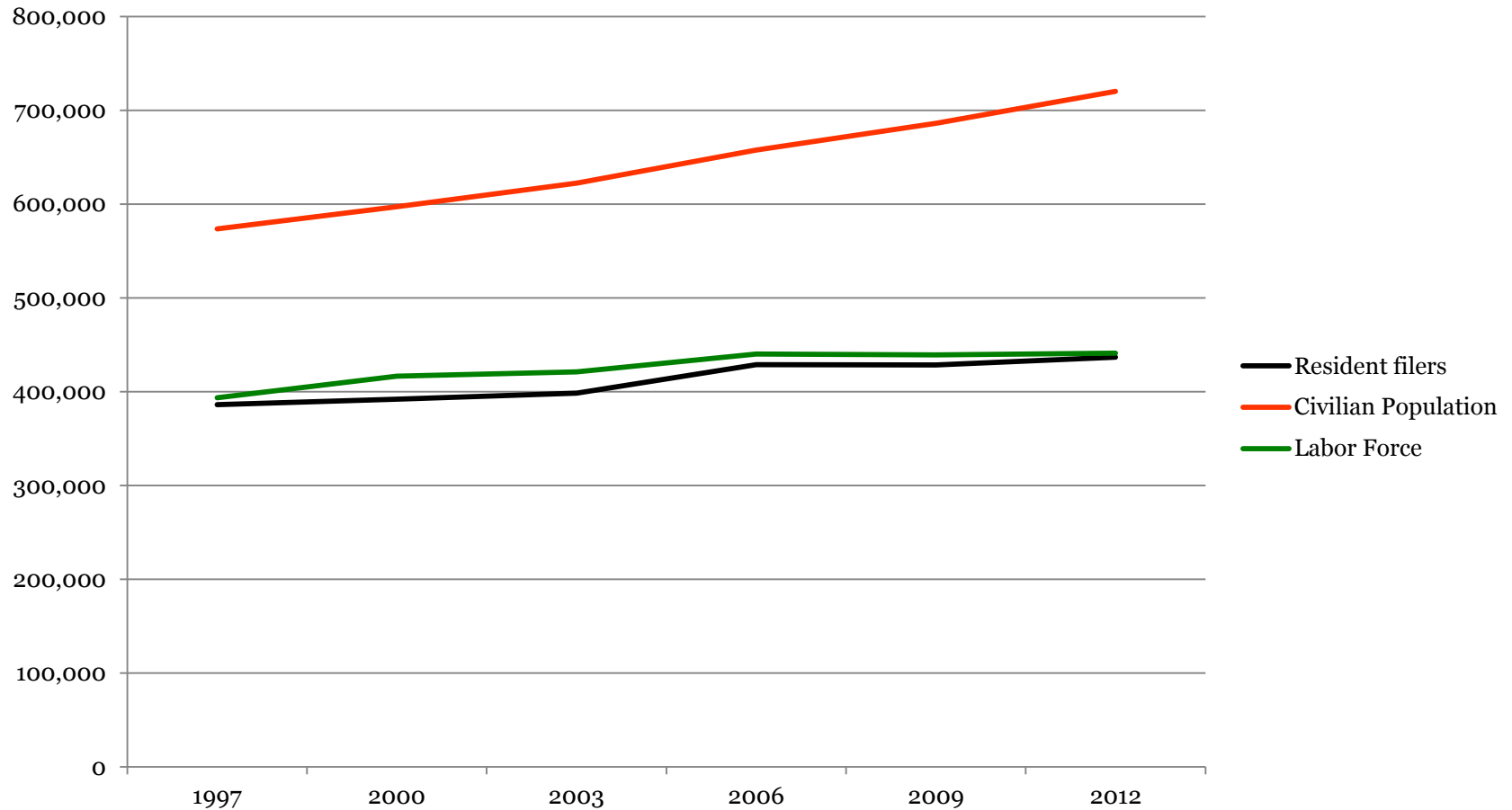
Personal Income Tax by Income Level (2009 & 2012)

| DE AGI Percentile | Tax Year 2009 | | | | Tax Year 2012 | | | |
|-------------------|------------------|---------------------------|---------------------|----------------------------|------------------|---------------------------|---------------------|----------------------------|
| | Number of Filers | Number of Resident Filers | Average DE AGI (\$) | Average Net Liability (\$) | Number of Filers | Number of Resident Filers | Average DE AGI (\$) | Average Net Liability (\$) |
| 0-10 | 48,278 | 43,933 | 4,039 | 2 | 49,453 | 45,002 | 4,240 | 2 |
| 10-20 | 48,278 | 44,899 | 10,613 | 37 | 49,454 | 45,992 | 11,092 | 45 |
| 20-30 | 48,278 | 45,381 | 16,940 | 162 | 49,453 | 45,992 | 17,512 | 179 |
| 30-40 | 48,278 | 44,899 | 23,414 | 345 | 49,454 | 45,992 | 24,094 | 374 |
| 40-50 | 48,278 | 44,899 | 30,139 | 626 | 49,455 | 45,498 | 31,181 | 675 |
| 50-60 | 48,278 | 43,933 | 37,716 | 979 | 49,453 | 45,003 | 39,280 | 1,068 |
| 60-70 | 48,278 | 42,967 | 46,848 | 1,373 | 49,454 | 44,014 | 49,129 | 1,506 |
| 70-80 | 48,278 | 42,485 | 59,031 | 1,866 | 49,453 | 43,024 | 62,349 | 2,066 |
| 80-90 | 48,278 | 40,554 | 78,784 | 2,657 | 49,454 | 41,047 | 83,685 | 3,058 |
| 90-95 | 24,140 | 18,588 | 110,135 | 4,031 | 24,727 | 18,793 | 119,511 | 4,928 |
| 95-99 | 19,311 | 12,745 | 178,080 | 7,415 | 19,781 | 13,253 | 205,152 | 9,921 |
| 99-100 | 4,828 | 3,138 | 670,271 | 31,917 | 4,946 | 3,166 | 945,054 | 52,731 |
| | 482,781 | 428,420 | 105,501 | 4,284 | 494,539 | 436,777 | 132,690 | 6,379 |

| | | |
|---------------------------------|---------|---------|
| Employed | 404,570 | 409,796 |
| Unemployed | 34,752 | 31,331 |
| Labor Force | 439,322 | 441,127 |
| Civilian Population | 686,095 | 720,207 |
| Number of households | 328,108 | 334,076 |
| Persons per household | 2.58 | 2.62 |
| Median household income (\$) | 52,114 | 48,972 |
| Average annual pay (\$) | 47,770 | 51,734 |
| Per capita personal income (\$) | 40,846 | 44,031 |

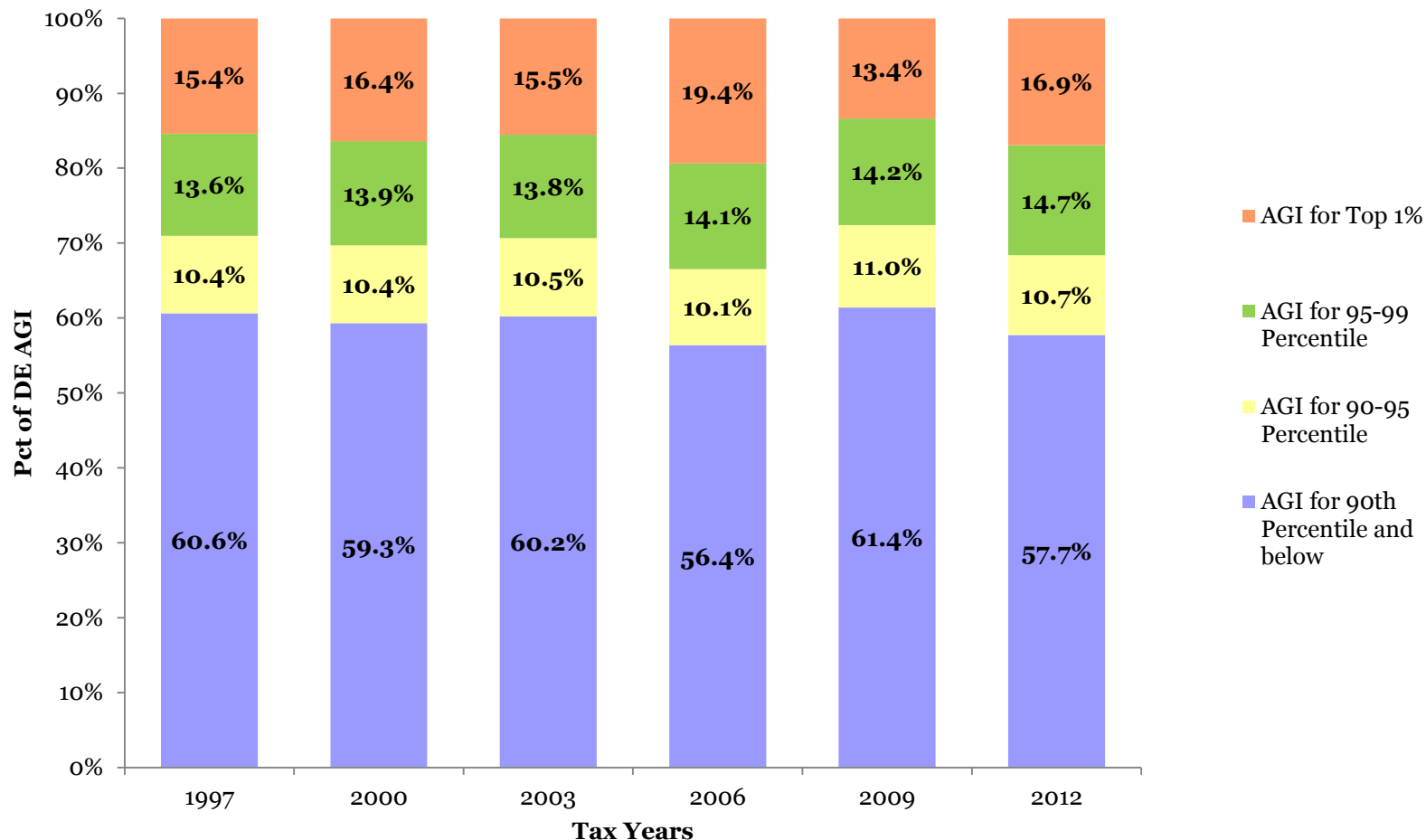


Civilian Noninstitutional Population and Resident Filers



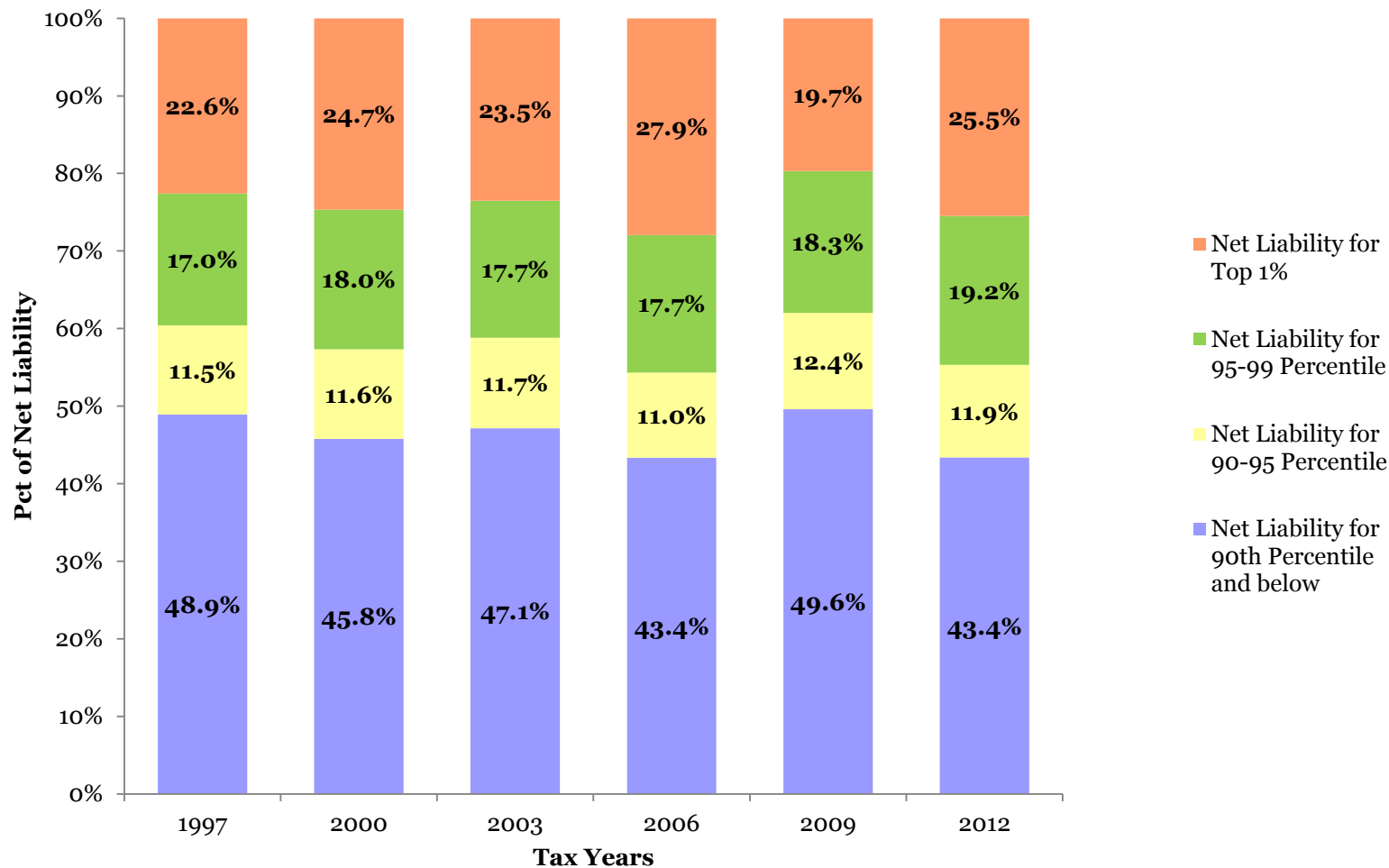


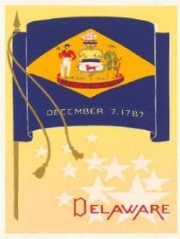
Changing DE AGI Composition





Changing Liability Composition





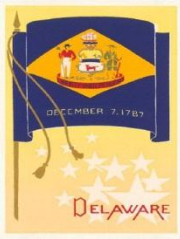
Real Values using State & Local Government Purchase Index

| Nominal Values (\$) for Delaware | | | | | | DE Real Values, adjusted by State & Local Government Purchase Index (\$), 1997 = 100 | | | | |
|----------------------------------|------------|-----------|---------|-------------|-------------|--|-----------|---------|-------------|-------------|
| | Per capita | Median | Average | Average | Average | Per capita | Median | Average | Average | Average |
| | Personal | Household | Annual | AGI of 50th | AGI of 70th | Personal | Household | Annual | AGI of 50th | AGI of 70th |
| | Income | Income | Pay | Percentile | Percentile | Income | Income | Pay | Percentile | Percentile |
| 1997 | 27,077 | 43,033 | 32,215 | 22,327 | 34,122 | 27,077 | 43,033 | 32,215 | 22,327 | 34,122 |
| 2000 | 32,097 | 50,365 | 36,696 | 26,029 | 39,368 | 28,867 | 45,297 | 33,004 | 23,410 | 35,407 |
| 2003 | 35,451 | 49,019 | 40,954 | 27,435 | 41,444 | 29,178 | 40,345 | 33,707 | 22,580 | 34,110 |
| 2006 | 40,276 | 52,438 | 46,285 | 29,953 | 45,870 | 28,426 | 37,010 | 32,667 | 21,140 | 32,374 |
| 2009 | 40,846 | 52,114 | 47,770 | 30,139 | 46,848 | 26,141 | 33,353 | 30,573 | 19,289 | 29,983 |
| 2012 | 44,031 | 48,972 | 51,734 | 31,181 | 49,129 | 26,105 | 29,034 | 30,671 | 18,486 | 29,127 |



Real Values using the CPI Index

| | Nominal Values (\$) for Delaware | | | | | DE Real, CPI-Adjusted Values (\$), 1997=100 | | | | |
|-------------|----------------------------------|-----------|---------|-------------|-------------|---|-----------|---------|-------------|-------------|
| | Per capita | Median | Average | Average | Average | Per capita | Median | Average | Average | Average |
| | Personal | Household | Annual | AGI of 50th | AGI of 70th | Personal | Household | Annual | AGI of 50th | AGI of 70th |
| | Income | Income | Pay | Percentile | Percentile | Income | Income | Pay | Percentile | Percentile |
| 1997 | 27,077 | 43,033 | 32,215 | 22,327 | 34,122 | 27,077 | 43,033 | 32,215 | 22,327 | 34,122 |
| 2000 | 32,097 | 50,365 | 36,696 | 26,029 | 39,368 | 30,044 | 47,144 | 34,349 | 24,364 | 36,850 |
| 2003 | 35,451 | 49,019 | 40,954 | 27,435 | 41,444 | 31,020 | 42,892 | 35,835 | 24,006 | 36,264 |
| 2006 | 40,276 | 52,438 | 46,285 | 29,953 | 45,870 | 32,101 | 41,795 | 36,891 | 23,873 | 36,560 |
| 2009 | 40,846 | 52,114 | 47,770 | 30,139 | 46,848 | 30,587 | 39,025 | 35,772 | 22,569 | 35,082 |
| 2012 | 44,031 | 48,972 | 51,734 | 31,181 | 49,129 | 30,822 | 34,280 | 36,214 | 21,826 | 34,390 |



Tax Filers per Bracket 2012

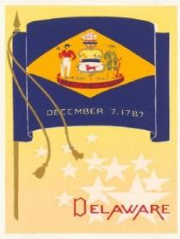
Tax Year 2012 Delaware Personal Income Filers

With Delaware AGI > 0

| Taxable Income Range | | Number of Filers | 2012 Marginal Tax Rate | 2015 Marginal Tax Rate |
|-------------------------|----------|---------------------|------------------------------|------------------------------|
| From | To | | | |
| Less than \$0 | | 26,808 | NA | NA |
| \$0 | \$2,000 | 14,104 | 0.00% | 0.00% |
| \$2,000 | \$5,000 | 22,354 | 2.20% | 2.20% |
| \$5,000 | \$10,000 | 41,223 | 3.90% | 3.90% |
| \$10,000 | \$20,000 | 79,351 | 4.80% | 4.80% |
| \$20,000 | \$25,000 | 37,622 | 5.20% | 5.20% |
| \$25,000 | \$60,000 | 172,058 | 5.55% | 5.55% |
| \$60,000 | and over | 101,019 | 6.75% | 6.60% |

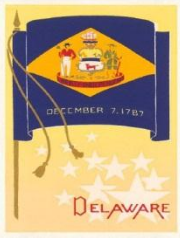
Total

494,539



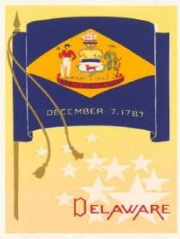
Policy Levers: Base Broadening

- Note: DEFAC FY17 PIT Estimate: \$1,341m
- Decouple From Federal Itemized Deductions (\$180-190m, roughly 14%)
 - 47% of tax returns involve itemized deductions.
 - Reduce rewards for existing behavior.
- Cap or Means-Test Itemized Deductions
 - Effectively eliminate some deductions and tax subsidies.
 - Still provide tax subsidy based on behavioral choices.
- Offset some of the changes with increased standard deductions or rate changes



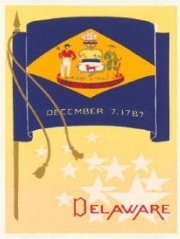
Policy Levers: Base Broadening

- Delaware's Tax Preferences for Retirement Income
 - \$12,500 in pension income is tax-exempt for those over 60.
 - Portions of Social Security income are excluded from Federal and Delaware definitions of AGI.
 - Taxpayers 65 years of age (or blind) who do not itemize are entitled to an additional \$2,500 standard deduction.
 - Taxpayers 60 years of age or more receive an additional personal credit of \$110.



Policy Levers: Base Broadening

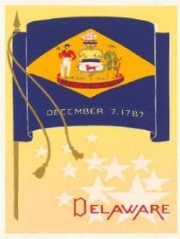
- Means-test tax-exempt retirement income
 - For example, single exemption capped at \$25,000;
 - Phased out over a total income range from \$50,000 to \$100,000 (Approximately \$47m or 3.5%)
 - Reduces preference towards particular retirement sources for those with a greater ability to pay.
- Change eligibility for extra personal credit from 60 to 65. (Approximately \$4m or 0.3%)
- Change eligibility for pension exclusion from 60 to 65. (\$15m 1.1%)
 - Acknowledges changes to working life and lifespan.
 - Simplifies the tax codes treatment and definition of retirement age.



Policy Levers: Rate Changes

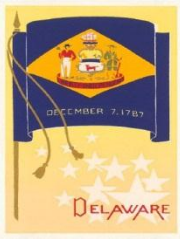
- Raise rates across all tax brackets.
 - Proportional increase in funding of state expenditures.
 - Ex: Raise all rates 10%, top rate: 7.25% (\$150-160m, 11.5-12.0%)
- Raise the top marginal rate
 - Ask more of those with more perceived ability to pay.
 - Ex: Raise rate on \$60k & over 100 BP to 7.6% (\$115-120m, 8.8%)
- Create a new top tax bracket
 - More ability to pay, but asking less of the middle class.
 - Ex: 8.0% on AGI > \$100,000 (\$110-120m or 8.5%)

Appendix on State Income Tax Comparisons



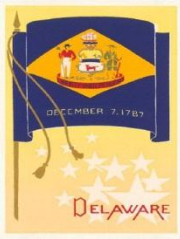
Comparisons: Non-Itemized, Progressive States

| State | IRC Conformity Date | Comments | Itemized Deductions | Comments | Personal Income Tax Rate--2015 | Comments |
|-------|---------------------------|--|---------------------|---|--------------------------------|---------------------------------------|
| DE | Current IRC | N/A | Yes | N/A | Ranges from 2.2% to 6.6% | Taxable income up to \$2,000 is 0 tax |
| NJ | None | Unless explicitly indicated, New Jersey does not incorporate IRC taxing concepts | No | N/A | Ranges from 1.4% to 8.97% | N/A |
| OH | IRC as of 03/22/2013 | N/A | No | Ohio does not allow federal itemized or standard deductions. | Ranges from 0.528% to 5.333% | N/A |
| WI | IRC as of 12/31/2010 | N/A | No | Wisconsin allows an itemized deduction credit | Rates range from 4.0% to 7.65% | N/A |
| WV | IRC as amended 12/31/2013 | N/A | No | State does not allow itemized deductions | Ranging from 3% to 6.5% | N/A |
| CT | Current IRC | N/A | No | N/A | 3%, 5%, 5.5%, 6%, 6.5%, 6.7% | N/A |
| LA | Current IRC | N/A | No | State does not allow itemized deductions. State allows a deduction for the amount of excess federal itemized personal deductions. | Ranges from 2% to 6% | N/A |
| RI | Current IRC | N/A | No | Effective January 1, 2011, taxpayers do not have the option to itemize deductions; only the Rhode Island standard deduction is allowed. | Ranges from 3.75% to 5.99% | N/A |



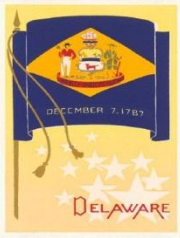
Comparisons: Non-Itemized, Flat Rate States

| State | IRC Conformity Date | Comments | Itemized Deductions | Comments | Personal Income Tax Rate- -2015 | Comments |
|-------|--|---|---------------------|--|------------------------------------|---|
| DE | Current IRC | N/A | Yes | N/A | Ranges from 2.2% to 6.6% | Taxable income up to \$2,000 is 0 tax |
| CO | Current IRC | N/A | No | N/A | 4.63% | N/A |
| IL | Current IRC | N/A | No | N/A | 3.75% | N/A |
| UT | Current IRC | N/A | No | Effective 2008 and after, a limited tax credit is allowed for federal itemized deductions, as limited for state tax purposes | 5% | Flat tax of 5% is imposed on individuals, estates, and trusts. |
| IN | IRC as amended and in effect on 01/01/2013 | N/A | No | N/A | 3.3% | N/A |
| MA | IRC in effect on 1/1/05 | With certain exceptions. | No | Massachusetts allows certain deductions and exemptions that are part of federal itemized deductions and Massachusetts does not have a standard deduction | 5.15% | Short-term capital gains and gains on collectibles are taxed at 12% and capital gains earned on certain investments in start-up companies are taxed at 3% |
| MI | IRC as amended through 1/1/96 | Taxpayer can elect to use IRC in effect for the tax year | No | N/A | 4.25% | N/A |
| PA | IRC as of 1/1/1997 | Pennsylvania does not have a general IRC conformity statute but adopts by reference various IRC provisions as amended to 1/1/97 unless the reference contains the phrase "as amended," and does not refer to any other date, in which case current IRC applies. | No | Pennsylvania law has no provisions for standard or itemized deductions. | 3.07% | N/A |



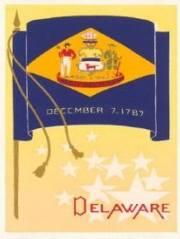
Comparisons: Fixed IRC Conformity

| | IRC Conformity Date | Comments | Itemized Deductions | Comments | PIT Rate--2015 | Comments |
|----|---|--|---------------------|--|---------------------------------|---|
| DE | Current IRC | N/A | Yes | N/A | Ranges from 2.2% to 6.6% | Taxable income up to \$2,000 is 0 tax |
| CA | IRC as amended through 01/01/2009 applies for tax years starting on or after 01/01/2010 | N/A | Yes | N/A | Rates range from 1% to 12.3% | Plus millionaire tax (i.e., 1% surcharge on taxable income exceeding \$1 million). |
| HI | IRC as amended through 12/31/2013 | N/A | Yes | N/A | Ranges from 1.4% to 11% | N/A |
| ME | IRC as amended as of 12/31/2013 Update: 3/6/2014 before 3/6/2014, IRC as amended as of 1/2/2013 applicable to tax years beginning on or after 1/1/2013 | Applicable to tax years beginning on or after 01/01/2013 | Yes | N/A | Ranges from 6.5% to 7.95% | N/A |
| MN | IRC as of 03/26/2014 for tax years beginning after 12/31/2012 | N/A | Yes | State starts with federal taxable income so adopts itemized deductions made by taxpayer for federal purposes with certain modifications. | Ranges from 5.35% to 9.85% | Income brackets, based on federal filing status, are adjusted annually for inflation. |
| ND | IRC as amended | N/A | Yes | N/A | Rates range from 1.22% to 3.22% | N/A |
| SC | IRC as amended through 12/31/2013 | Update: 03/14/2014 Previously, IRC as amended through 01/02/2013 | Yes | However, South Carolina does not conform to IRC § 68, relating to the reduction of itemized deductions for certain taxpayers | Ranges from 2.5% to 7% | N/A |
| NC | IRC as of 12/31/2013 | N/A | Yes | N/A | 5.75% | N/A |



Comparisons: Similar States

| | IRC Conformity Date | Comments | Itemized Deductions | Comments | Personal Income Tax Rate--2015 | Comments |
|----|---------------------|--|---------------------|--|---------------------------------|--|
| DE | Current IRC | N/A | Yes | N/A | Ranges from 2.2% to 6.6% | Taxable income up to \$2,000 is 0 tax |
| AL | Current IRC | Where IRC adopted | Yes | N/A | Ranges from 2% to 5% | N/A |
| DC | Current IRC | N/A | Yes | If taxpayer itemized deductions federally. | Ranges from 4% to 8.95% | An additional bracket was added for 2015. |
| KS | Current IRC | N/A | Yes | N/A | Ranges from 2.7% to 4.6% | N/A |
| MD | Current IRC | IRC amendments after 12/31/01 take effect the year following enactment. IRC §§ 199, 179 as to increased maximums, bonus depreciation, and 5-year NOL carryback are treated as if not in effect | Yes | N/A | Ranges from 2% to 5.75% | N/A |
| MO | Current IRC | N/A | Yes | N/A | Ranges from 1.5% to 6% | N/A |
| NE | Current IRC | N/A | Yes | N/A | Rates range from 2.46% to 6.84% | N/A |
| NY | Current IRC | N/A | Yes | But phase-out for taxpayers with AGI exceeding \$100K. | Ranges from 4% to 8.82% | For 2012-2017 tax years |
| OK | Current IRC | N/A | Yes | N/A | Ranges from 1/2% to 5.25% | Highest rate was 5.25% in 2013. Highest rates could increase to 5.5% if Board of Equalization determines revenue estimates are too low |



Potential Dates for Future Meetings

- The following dates are being held by Buena Vista from 1-5 pm:
 - Friday, February 13
 - Monday, February 16
 - Thursday, March 5
 - Friday, March 20
 - Monday, March 23

Incorporations Revenues

**Report for Structural Revenue
Review Committee
January 30, 2015**



Background: Delaware Legal Entities

of Entities – 1,114,000

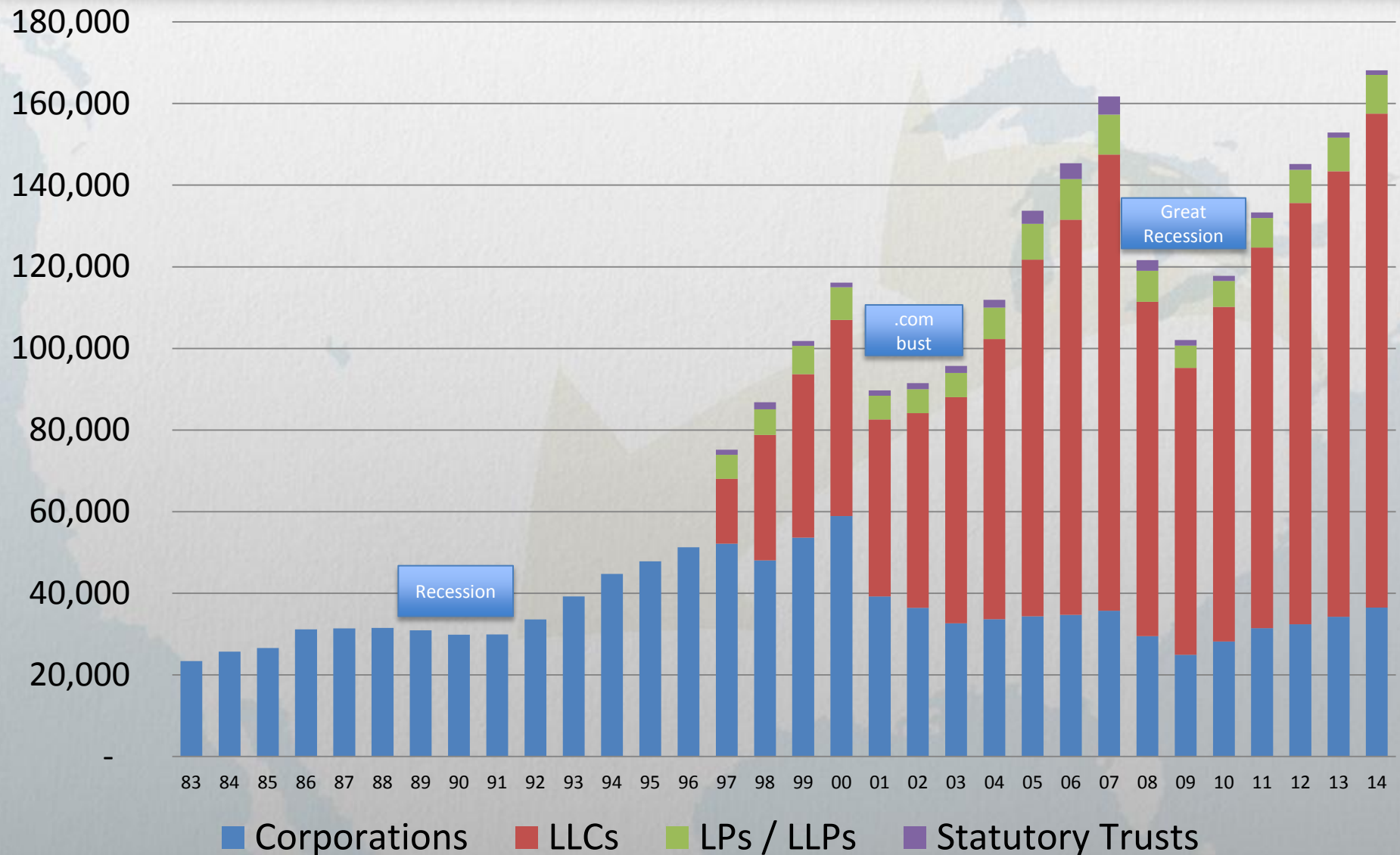
- 283,000 corporations
- 725,000 LLC's
- 83,000 LP's and LLP's
- 23,000 Statutory Trusts

Key Market Share Statistics

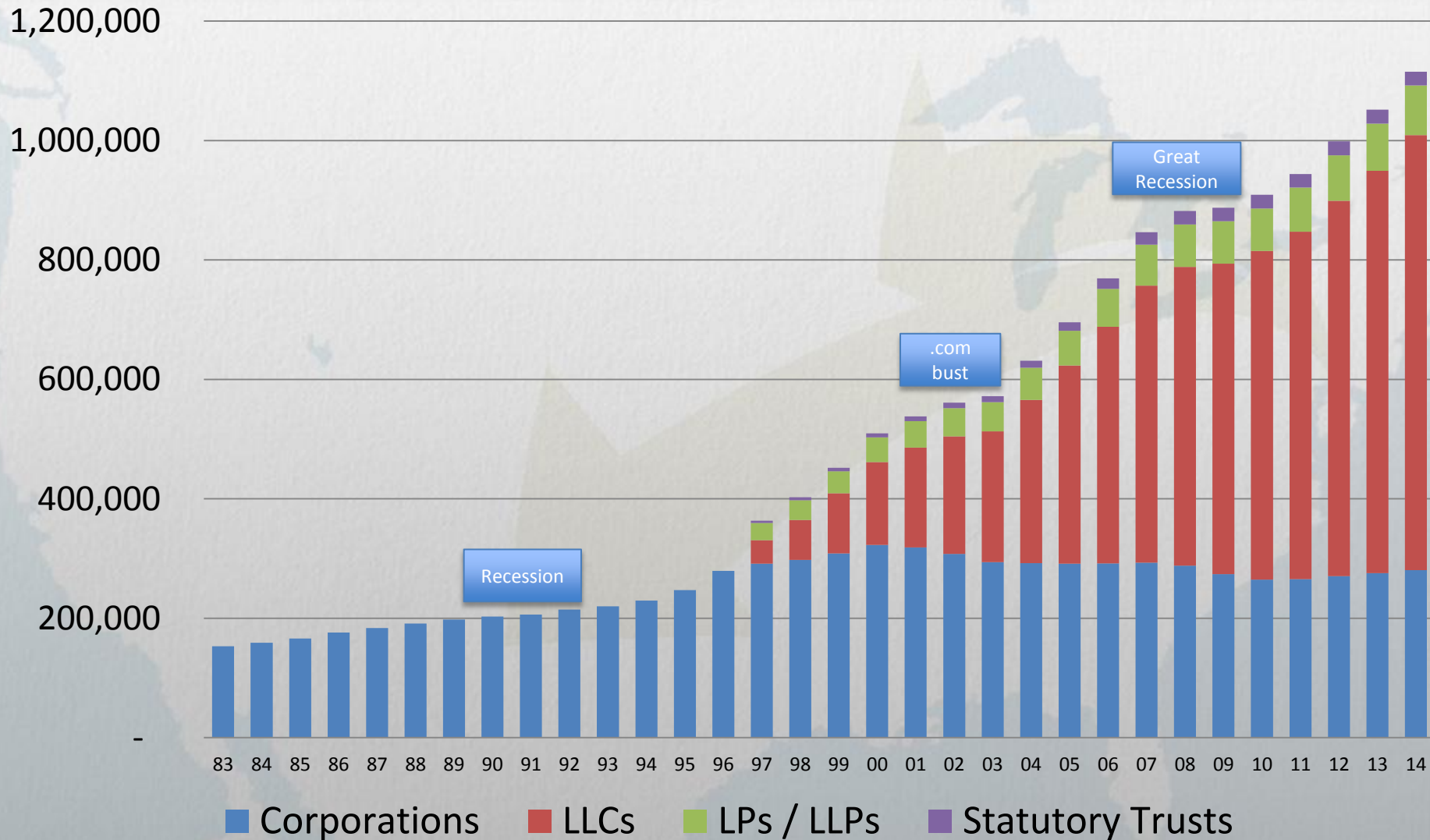
- 5% of all U.S. legal entities
- 65.6% of the Fortune 500
- 84% of all new U.S. IPO's in 2014



Formation Activity Moves with Economy



Active Business Entities (1983 – 2014)



Guiding Principles of the Franchise Tax

- Delaware's franchise tax is “not, strictly speaking, a tax at all, nor has it the elements of one. It is in reality an arbitrary imposition laid upon the corporation, without regard to the value of its property or of its franchises and without regard to whether it exercises the latter or not, solely as a condition of its continued existence.”

- Chancellor Josiah Wolcott, *State v. Surety Corp of America*, 1932

- Unlike a tax, the State is charging a price for a service that a customer, who has alternatives, is willing to pay.
- Average Turnover – Corps (9 yrs.); Other Entities (11 yrs.)
- Must continue to provide a superior product.
- Must be reasonably priced in the market.
- Must align with the value of DE corporate law to the entity

Aligning Price with DE's Value Proposition

- Predictable, fair and efficient laws, courts, and services
 - Predictable:
 - Basic structure of the CFT unchanged since 1937
 - Tax basis controllable by corporate managers
 - Rates adjusted relatively infrequently
 - Fair:
 - Firms most likely to use corporate laws extensively pay more (i.e., firms with many shareholders and significant assets)
 - Firms with many shares / few assets can pay less
 - Closely held firms pay little
 - Efficient:
 - 94% of entities pay a simple flat tax
 - Inexpensive formation and dissolution fees

History of Corporate Franchise Tax

- 1899 -- Initially based on par value of “capital stock issued and outstanding”. Changed to “capital paid in” (1901), “amount of authorized capital stock” (1907), and “number of authorized shares” (1927)
- 1937 – Current basic tax structure enacted:
 - ***Authorized Shares Method***
 - Flat minimum taxes for fewer than 10,000 authorized shares
 - A tax on each additional 10,000 authorized shares
 - Up to a maximum tax
 - ***Assumed Par Value Method***
 - A tax rate applied to each \$1 million of taxable gross assets multiplied by the ratio of authorized to issued shares
- Since 1937 - Periodic adjustment to rates. No changes to core structure.

Current Taxation Rates

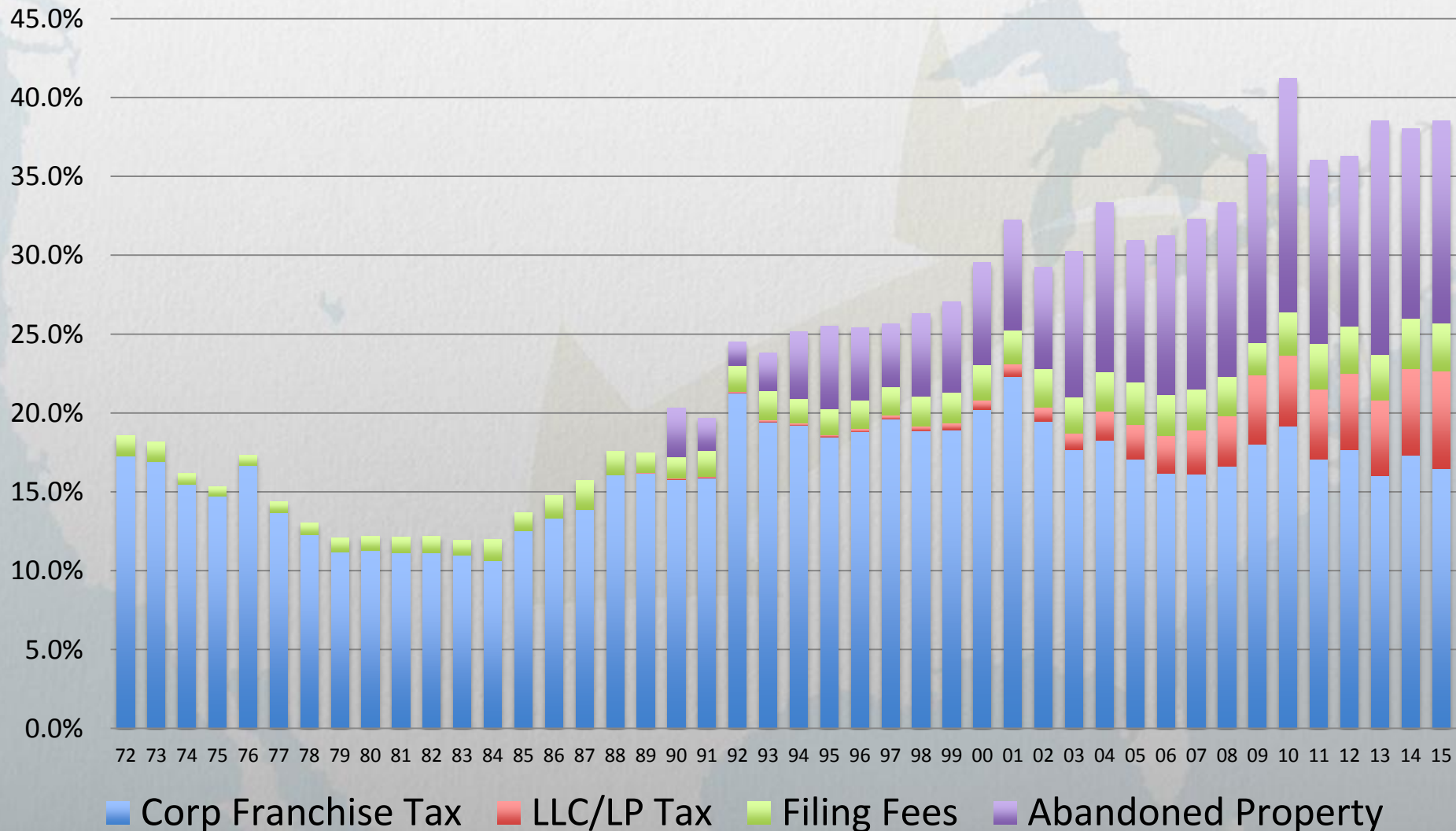
- CFT Authorized Shares Method
 - Minimum Tax (0 – 5,000 shares) - \$175 flat
 - Minimum Tax (5,001 - 10,000 shares) - \$250 flat
 - Each additional 10,000 shares -- \$75
- CFT Assumed Par Value Method (APV)
 - Multiplier - \$350 per \$1 M of taxable gross assets
 - Minimum Tax - \$350
- CFT Maximum Tax - \$180,000
 - Triggered at 24M shares; \$514M taxable gross assets
- LLC / LP Tax - \$300
- Statutory Trusts – No tax

Delaware vs. Other States

- Corporate Franchise Tax
 - \$180,000 maximum tax highest in nation.
 - Combined cost of \$175 minimum tax rate plus \$50 annual report fee is above average but competitive.
- LLC Tax
 - Near the high end of the market.
- Fees
 - Competitive formation and dissolution fees.
 - Most other fees at the high end of the market.
- **About 1% of total revenues in the average U.S. state**

Delaware's Reliance on Corporate Franchise

Incorporations-Related Revenue as % of GF Revenue



Delaware Incorporations Revenue

(in millions)

| | Actual FY 2012 | Actual FY 2013 | Actual FY 2014 | Forecast FY 2015 |
|--------------------------------------|---------------------------|---------------------------|---------------------------|-----------------------------|
| Entity Taxes (net of refunds) | \$766.0 | \$776.8 | \$814.6 | \$889.3 |
| Business Entity Fees | 84.5 | 89.8 | 96.0 | 102.3 |
| UCC Fees | 16.7 | 16.9 | 17.2 | 17.5 |
| TOTALS | \$867.2 | \$883.5 | \$927.8 | \$1,009.1 |
| % GROWTH | 1.0% | 1.9% | 5.0% | 8.8% |

Makeup of Corporate Franchise Tax

| | # of Corporations | FY 15 Forecast (in millions)* |
|-----------------------------|---|----------------------------------|
| Tax Exempt | 20,000 (includes 1,000 banks/insurers) | \$ 0 |
| Minimum Taxes | 197,000 | \$40 |
| Per 10,000 Shares | 31,250 | \$125 |
| Assumed Par Value Method | 33,000 | \$ 166 |
| Maximum Tax | 1,750 | \$ 325 |

* Includes penalties & interest and late payments

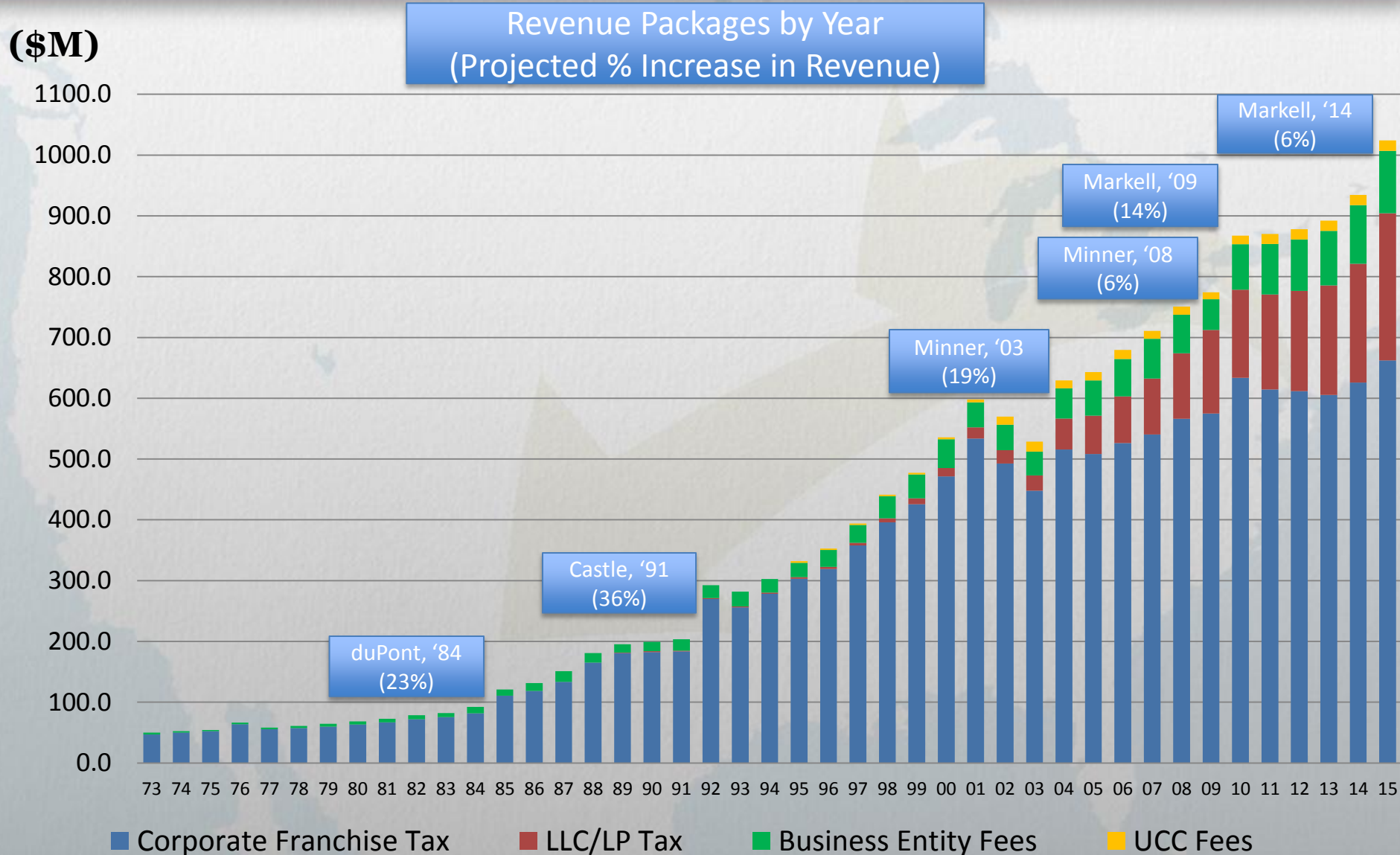
Makeup of LLC / LP Annual Tax

- 812,000 domestic & foreign LLC's & LP's
- \$244 million in tax due (\$300 per entity)
- \$224 million collected (92% payment rate)
- \$18 million of penalties and interest
- \$242 million -- FY 15 Forecast

Makeup of Fees

| | General Fund Fee Schedule | FY 14 Actual (in millions)* |
|--|--|--------------------------------|
| Alternative Entity Filings (formation, amendments, mergers, cancellations) | \$90 LLC formation \$200 most other filings LLP - \$200/partner up to \$120,000 | \$ 38 |
| Certifications | \$50 short form / \$175 long form | \$ 34 |
| UCC (filings, searches, copies) | \$30 web; \$100 paper; \$25 Search | \$ 22 |
| Corporate Filings | \$89 formation \$169 - \$2,500 most other filings | \$ 17 |
| Corporate Annual Reports | \$50 for-profit; \$25 exempt | \$ 13 |
| Miscellaneous (e.g., Copies) | \$10 + \$2 each additional page | \$2 |
| <i>Less: Filing Fees to County/County Seats</i> | <i>Corps - \$24 county recordation fee Corp/LLC – \$20 courthouse municipality fee UCC – 23% to City of Wilmington</i> | <i>(\$13)</i> |
| Total General Fund Fee Revenue | | \$113 |

Direct Corporate Revenue (1972 – 2015)



Policy Levers - Corporate Franchise Tax

- Periodic rate adjustments at all levels
- Change late penalties and revival fees
- Create a two-tier maximum tax with different rates for “emerging growth companies”
- Index rates to inflation
- Change basis of taxation entirely.

Policy Levers -- Alternative Entity Taxes

- Periodic rate adjustments
- Create a two tier tax for LLC's
 - Minimum flat tax
 - Different rate for LLCs with significant assets
- Tax Publicly-traded LPs like corporations
- Tax Statutory Trusts
- Index rates to inflation.

Policy Levers - Fees

- Continue to develop new products and services
- Change LP and Statutory Trust filing fees
- Change per partner and maximum fee for LLP's (currently \$200/partner or \$120,000)
- Change local government fees



Delaware

Incorporation Revenues

Questions & Discussion

